

Krittakarn Tienkaew 2014: The Relation of Oil Price and Business Cycle in Thailand.  
Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor:  
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Crude oil is an important basic input which plays a major role in the overall economy and in the development of Thailand in the present and the future. It is difficult for Thailand, which is a crude oil importer, to avoid the effect of changing world crude oil prices on the nation's gross domestic product (GDP), which is linked with Thailand's business cycle.

The purpose of this research was to test the statistical relationship between oil prices and macroeconomic variables that have an influence on the business cycle of Thailand. The study used Real Business Cycle (RBC) models which were based on the research of Burlage and Spannig (2006), and the Structural Vector Autoregression (SVAR) estimation method. A database of quarterly data for the period 2001: 1 - 2013: 2 was accessed in order to provide data for the investigation.

The results showed that shocks in real oil prices can directly affect real GDP. The findings of the Impulse Response Function analysis indicated that a positive relationship exists between real oil prices and real GDP, which is related to Thailand's business cycle. During the period which was included in the research, the government took measures to control oil prices in Thailand. As a result domestic oil prices did not alter in line with oil prices on the world market. When world oil prices rose, but domestic fuel prices did not change accordingly, manufacturers may have increased production because they expected that the government was able to take these measures only for a relatively short period of time. This is a possible reason for the positive relationship which was found between real oil prices and real GDP. Finally, the variable decomposition analysis revealed that approximately 25.53 percent of the fluctuation in Thailand's GDP or business cycle was caused by shocks in real oil prices during the period 2001: 1 - 2013: 2. Hence, so as to reduce the volatility in levels of GDP which are caused by the modification of oil prices on the world market, the government should encourage the use of the fuel which is produced by Thailand's agricultural sector as a source of alternative energy.

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